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TESTIMONY OF LAWRENCE MOLNAR
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SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND
EMERGENCY MANAGEMENT
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Madam Chairman, as you consider the lessons learned for the Economic Development Administration (EDA) from its Recovery Act investments and new plans to strengthen economic development through this important agency as your Committee moves forward on reauthorization of EDA, I testify to you today as President of the Educational Association of University Centers (EAUC). The EAUC is the advocacy organization for universities that participate in the EDA University Center Program. I also direct the EDA University Center for Economic Diversification at the University of Michigan (U-M). I would like to note that the members of EAUC also includes universities that have established economic development programs but are not currently funded through the EDA University Center Program.

I am honored to be invited to offer this testimony regarding the performance, contributions, and great potential of what I will call the higher education infrastructure in our country to economic transition, economic recovery, and economic development. States, communities, companies, organizations, and individuals and their families are facing tremendous socio-economic challenges that are in many ways equivalent or greater than those experienced during the Great Depression. In this challenging environment, the higher education infrastructure of universities, colleges and community colleges is underutilized and under-recognized. It has the true potential to provide vital projects, programs, and initiatives that will help to create jobs, generate revenue in the private sector, and drive economic growth.

Nationwide, the university community has responded to, and participated in, initiatives generated by the passage of the American Recovery and Reinvestment Act (ARRA). The stimulus funding has supported not only critical research, but also programs that have great potential to unleash new technologies, products, and processes that will in turn generate private sector revenue and create new, often *green* jobs.

Both EDA University Center Programs, and universities that have economic development programs not currently funded by EDA, have partnered with and assisted other organizations to apply for and receive funding for projects and programs under the ARRA. Examples include the EDA Center at the University of Nevada, which assisted the Metropolis Water Irrigation District in Elko, Nevada by providing data about potential economic impacts of a water project in that region.

Virginia Tech led a team of nearly 20 partners that was awarded \$3.8 million to train workers for new, green jobs in the construction industry. This project will develop a green training

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curriculum in local communities hard hit by job losses. The grant is expected to train some 400 workers for these jobs.

At Southeast Missouri State, its economic development group worked with a community action agency to utilize stimulus funding for an entrepreneurial training program targeted at poor rural area. The University's Agricultural Department also assisted in gaining ARRA funding for establishment of an agricultural production cluster.

At my institution, the University of Michigan, we received over \$150 million from a number of federal agencies for a wide variety of projects and programs, many of which have practical applications that have the strong potential to create new technologies and processes that will generate new high-skill, high-wage jobs. This is in addition to many research initiatives that are more basic in nature, but over the longer term also have great potential to contribute to growth in the economy and in creating jobs.

One of the initiatives at the University of Michigan funded through the ARRA is the establishment of a DOE-sponsored Energy Frontier Research Center that will explore new materials to better convert solar energy to electricity. The Center will focus both on fundamental research and on designing realistic materials based on this research. Dr. Stephen Forrest, the Vice President for Research at the U of M, recently stated "People at the University have enormous ability to grow new materials at the nano scale and bring new products to market."

At the University of Michigan we have also received ARRA funding to increase our ability to work with companies, many of them in the automotive sector, to help them diversify with new products and new markets, and help them to stabilize and then help them grow. Nearly 24% of the companies that have participated in the program for a year or more have actually added employees and the balance of those companies have an employee count that is down 4%, as compared to the average for Michigan manufacturers of 26%.

One suggestion that I would convey to the Committee is that when federal investments are made for research, especially basic research, that some additional percentage of the total research funding be provided for use as seed funding, to bring basic discoveries to commercialization. Currently, a gap exists between the funding of the basic research and the effort needed to demonstrate commercial applications to develop prototypes which will in turn lead to turning the research investment into a source of new jobs and new private sector revenue. The Small Business Innovation Research program operates in just such a matter, as does the Small Business Technology Transfer program.

As this committee considers the reauthorization of EDA and the nature of the changes or improvements that can be made to make it even more effective in working to strengthen regions and communities and their economies, and to generate private sector job creation, I would like to suggest some modest changes to the EDA University Center Program. In this regard, I represent the belief of the members of our association that these changes would significantly improve the University Center Program nationwide.

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At the current time, there are just over 50 EDA University Center Programs. However, there are eight states and the District of Columbia that do not have University Center Programs. We believe that each state and the District should have at least one EDA-funded University Center. Further, we believe that the program should be significantly expanded over a five-year period to as much as double the number of universities that receive funding for University Center Programs. This would greatly increase the ability of the Higher Education System in the United States to respond to the economic development needs of these states and to contribute to economic recovery, and job creation.

In addition to adding to the number of EDA-funded Centers, the funding level for each center, which has remained at an average annual level of \$125,000 for nearly two decades, should be increased. We believe that federal funding for each center should be increased to \$250,000 per year, and that the cost-share requirement should be adjusted to 80% federal share and 20% local share, given the severe economic constraints on the higher education system and individual institutions.

Another improvement would rectify a decision made under the previous administration's leadership at EDA which imposed a 'competition' on the University Center Program. The competition resulted in each university center being funded for a three-year period. Following this period, each Center is required to submit a new funding proposal in an open competition, with no assurance that the program would continue. In effect, when each university center reaches the 18-month point in the cycle, the funding is only assured for another 18 months.

This decision established a very unstable environment in which the centers were forced to operate. Economic development projects that often take several years to come to fruition are truncated. Toward the end of the funding cycle, economic development projects may not be a prudent investment with only months of assured funding for the University Center Program in each institution. At a minimum, we believe that a five-year competition cycle is acceptable but we suggest that a peer-review process to evaluate a programs efficacy on a five-year cycle is more productive.

Such a peer-review process was successfully employed for many years. It enabled high-performing programs to continue, provided a feedback mechanism for suggesting ways that programs could improve when necessary, and as a last resort, recommend ending funding for programs that failed to improve performance in a defined period of time. It has also been ten years since the EDA University Center Program has been evaluated either by the GAO or by an outside evaluator. We believe that such an evaluation should be implemented immediately, and that the competition should be suspended until the evaluation(s) is complete.

In addressing another very important point, I wish to convey to you the support of the members of the EAUC, as well as, in my opinion, that of the higher education infrastructure overall, for reauthorization of the EDA. The EDA has a long, well respected, widely acknowledged history, and indeed tradition, of working to address and mitigate economic distress. With the portfolio of programs supporting economic development projects in regions and communities across the nation, EDA is often the first and last resource to address economic distress and dislocation.

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As an example, I will highlight a program in the six-state region served by the EDA Chicago Regional office which includes Michigan, Ohio, Indiana, Illinois, Wisconsin, and Minnesota -- the EDA Community Economic Adjustment Program (CEAP). My institution, the University of Michigan, leads this program that is entering its fourth year of operation. CEAP works with communities in our region that are suffering from the critically adverse socio-economic impacts caused by major manufacturing plant closures. Most, but not all, of these closures are in the automotive industry sector. We are working with dozens of communities to help them organize, identify critical areas of need and then to access federal and state programs to obtain funding to address the needs of dislocated workers, their families, and their communities. In this effort, we work closely with over 20 Federal agencies and the Presidential Automotive Communities Task Force.

A key characteristic of this program is the collaboration and partnerships that have been established among universities in the region. This component of the program provides the partnering EDA University Center Programs with the support, information, knowledge and tools to follow the CEAP model, and deliver critical assistance in the regions that are served by the partnering institutions. Included in the regional partnership are the University of Michigan, Cleveland State University, Ohio University, Purdue University, and the University of Wisconsin. Universities in the other two states are planned to join the partnership in the next fiscal year.

This multistate, region-wide collaboration means that many distressed communities have access to federal and state agencies and funding that they would otherwise not be aware of or not have the knowledge and experience to access. The program is very well-regarded by the communities and states that it serves. A key component is an Early Warning System whereby we monitor the status of literally hundreds of manufacturing plants in the region and issue an alert when a plant is at risk of a closure and mass layoff. This enables both the CEAP program as well as federal, state and non-profit agencies and organizations to generate a rapid response to address the adverse impacts of the sudden and severe economic dislocation and distress.

The economic security, national security, and global competitiveness of our nation are increasingly bound with the higher education system of colleges and universities in America. The economy of our nation is in a period of transformation from a primarily industrial-based economy to a post-industrial economy. This transformation is creating enormous challenges as jobs are lost in some sectors and regions, and jobs are created in other sectors and regions. It is increasingly essential that the higher education system continue to play an engaged and proactive role in the nation's economy. Helping to mitigate distress, helping communities recover, and creating new opportunities for growth and job creation are just some of the ways that universities remain engaged in moving our economy forward. Increased investment in and support for the nation's higher education infrastructure will yield a positive return for many generations to come.

In closure then, I would like to reiterate the key elements of my testimony today. The EDA is vital to economic recovery and economic development during this current time of challenge and

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as we approach the challenges and opportunities of the future. Speaking for the University Center Program and for the tremendous number of colleges and universities engaged at every level in economic development, it is critical to reauthorize EDA in a timely manner. The EDA University Center Program should be expanded, enhanced, and relieved of the burden of constant counterproductive competition. Universities are vital resources for economic recovery. Job creation and any further stimulus or jobs-related legislation should take the higher education infrastructure into strong account. I thank you for your attention to these issues and hope the committee will consider and incorporate them into your deliberations as you address EDA and its future. I would be happy to answer any questions now or in the future.
